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C O N F I D E N T I A L SECTION 01 OF 04 YEREVAN 000001

SIPDIS

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [EFIN](#) [AM](#)  
SUBJECT: AMBASSADOR'S INTRODUCTORY MEETING WITH STATE  
REVENUE COMMITTEE CHAIRMAN

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Classified By: Ambassador Marie L. Yovanovitch. Reason 1.4 (b/d)

SUMMARY  
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11. (C) Meeting for the first time on December 19 with State Revenue Committee Chairman Gagik Khachatryan, Ambassador commended the reform goals of the newly-merged agency, while highlighting areas in which the agency had failed to demonstrate either the political will or the institutional capacity to follow through on its stated reform commitments. Ambassador expressed particular concern over the failure of the Customs Service to take full advantage of USG-provided equipment and training, and reiterated that the USG is willing to cooperate on Customs issues but is not at this time prepared to enter into a formal agreement. End Summary.

REFORM-MINDED  
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12. (C) Meeting with Ambassador on December 19, State Revenue Committee Chairman Gagik Khachatryan outlined his agency's goals for reform of the notoriously corrupt tax and customs agencies, which were combined in August into a single organization. Although Khachatryan oversees both the tax and customs services, the meeting was devoted almost entirely to customs issues. He mentioned that the reform strategy has over 150 tasks, and acknowledged that the agency still needs to learn how to operate in a more efficient manner. Khachatryan emphasized that the President and Prime Minister are watching the agency's activities closely.

CUSTOMS REFORM  
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13. (C) In the area of Customs reform, Khachatryan noted that the agency has introduced two processes for clearing imports through Customs, both of which should allow clients to bypass the Customs line officers who have historically demanded bribes. These include a system of self-declaration--paying duties based on self-reporting of the invoice price (with the Customs service subsequently auditing those declarations by verifying them with the country of origin)--or hiring a customs broker to facilitate the clearance process. The agency has established a hotline and a website, both available to Customs users to report problems. Khachatryan claimed the website has all the resources necessary for citizens to conduct business.

14. (C) The agency is also working to develop pre-clearance processes at storage facilities rather than requiring all clearances to be processed at a central facility. In addition, customs warehouses have been equipped with cameras

in order to allow agency staff to monitor activities there and detect illegal behavior by Customs personnel. Khachatryan also hopes to reduce processing times at the border in order to speed the movement of imports into the country, but for this the GOAM will need better-equipped checkpoints and warehouses. The Customs Service is also moving to reduce documentary requirements and introduce more electronic processing. It has also reduced the list of products subject to certification, limiting it to food items.

15. (C) Ambassador responded that businesses remain skeptical about the GOAM's commitment to Customs reform, noting in particular that the introduction of customs brokers only seemed to shift the payoffs to another stage of the customs clearance process. Khachatryan responded that part of the problem is that most businesses were not yet prepared for the new customs clearance processes. He added that if businesses are displeased with brokers, they retain the option to do self-declaration. He noted, however, that few businesses currently use the self-declaration option, though he is encouraging them to move to that method.

16. (C) Khachatryan insisted that customs brokers are independent of the Customs agency, and that introduction of brokers is not a mere transfer of the payoff point down the clearance chain. He acknowledged that some brokers still lack the required skills, and to ameliorate the problem the customs service is providing extensive training to brokers. (Note: Customs brokers are required to take a test and be certified by Armenian Customs before being issued a brokers permit. All broker training is conducted by customs, and all brokers must be recertified annually. There is a fee for certification, currently USD 100 USD.)

17. (C) Asked why the Customs Service had recently removed

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from its website the tariff schedule it had posted earlier in the year--a welcome move toward transparency in the Customs process--Khachatryan claimed that they had been advised to do so by the World Bank. He asserted that no other country in the world posts its tariff schedules online. (Note: Our World Bank contact subsequently told us that they never advised the Customs Service to remove the tariff schedule from its website; rather, they had said Armenia is the only country in the world that sets arbitrary values for goods instead of using invoice-based valuation for determining the amount of duties payable. Many other countries--including the United States--post their tariff schedules online. End Note).

18. (C) Khachatryan noted that a large percentage of importers are now using brokers, though more are beginning to use self-declaration. (Note: The Armenian customs system, in its current form, is very confusing and requires several steps to complete. Most importers would rather pay a broker than spend hours at the customs office clearing the items themselves. End Note.) Asked what businesses do if they use neither brokers nor self-declaration, Deputy Director (and head of the Customs section) Artur Afrikian responded that these are the only ways to import goods into Armenia. The only other choice is to not import. (Comment: Afrikian did not mention the third way: Businessmen can pay "fees" to customs officers to ensure the documents are correct and items are expedited. Although shortly after Khachatryan took office--following the public firing of the previous Customs Chief, Armen Avetisian--the Customs Service made a prominent show of implementing a "no bribes" policy that prompted the resignations of 89 customs officers, recent reports indicate that the agency is reverting to a culture of bribery. End Comment).

MOVING TO INVOICE PRICING - BUT WARY OF ABUSE  
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19. (C) Successful introduction of both self-declaration and the use of brokers is premised on the use of the

internationally-used standard practice of assessing customs duties based on the price of the item as indicated on the invoice. Armenian customs agents have instead long employed subjective assessments in valuing items. This has created opportunities for officers to expedite goods or use their discretion to lower the valuation and duties in exchange for a payoff. While Khachatryan cited the increased use of invoice-based valuation as a sign of reform, he expressed concern that it also poses the risk that businesses will falsify invoices and understate the value of imported items. Business owners, Khachatryan said, need to be deterred from making false declarations by the knowledge that the GOAM can obtain pricing data from the countries of origin. He claimed that the Customs Service has experienced difficulty obtaining such data from other countries--including the United States.

¶10. (C) Khachatryan argued that the move toward invoice pricing is one reason for the United States and Armenia to sign a cooperation agreement (a Customs Mutual Assistance Agreement ) CMAA). He noted that the Customs Service is now negotiating with European and neighboring countries on agreements for data-sharing, and already has them in place with fourteen countries. Ambassador responded that while the USG is always prepared to cooperate with the GOAM on an ad hoc basis, it is not prepared to enter into a formal agreement until we see greater progress in basic system reforms. (Note: DHS last year informed the GOAM that at this time it is not interested in such an agreement, which the USG has with approximately 60 countries. Khachatryan's interest in a CMAA appears to be based on an erroneous belief that under such an agreement, U.S. companies would be compelled to share pricing information against which Customs officials could compare invoices or self-declarations of imported products. End Note).

¶11. (C) Ambassador acknowledged that simplifying procedures--including self-declaration and invoice-based valuation--runs the risk that the GOAM might not receive all Customs fees owed to it. However, the lack of a transparent Customs system and tolerance of corruption also poses risks. Legitimate companies will benefit from reform of cumbersome and opaque customs procedures, which will help Armenia. Conversely, making the customs process too difficult to allow firms to do business in Armenia will drive them to countries with more transparent systems (Comment: While invoice-based valuation may increase risks by placing greater reliance on self-reporting, Khachatryan fails to acknowledge that the Customs Service loses revenues when officers pocket payments in order to both reduce Customs fees as well as expedite processing. End Comment).

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#### USE OF EQUIPMENT AND TRAINING LAGGING

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¶12. (C) Khachatryan repeatedly emphasized that for any system striving for reform, training of staff is essential. He noted several training initiatives Customs is undertaking, some in cooperation with other European countries, and expressed interest in taking advantage of any programs the USG could offer. Ambassador responded that Customs officials have repeatedly declined USG offers of training programs. Noting that the USG provides training to help Customs protect both Armenia's physical and economic security, Ambassador questioned whether the USG and GOAM have conflicting goals, with the USG focused on border security and interdiction of imports of illegal items, and the GOAM on collecting payments from importers. Ambassador emphasized USG commitment to helping Customs increase the effectiveness of its enforcement capabilities, but reminded that we need to be able to show results of those efforts to Washington.

¶11. (C) Artur Afrikian noted he had discussed training and equipment needs extensively with EXBS Advisor. Appearing to contradict Khachatryan's statements about the primacy of

training, Afrikian acknowledged an interest in training, but immediately claimed that the agency lacks sufficient staff to send officers to multi-day workshops, away from their work. He disputed Ambassador's claims that a significant percentage of USG-provided equipment went unused--only some outdated items. He asked to be advised on specific cases where we find equipment not being properly deployed.

¶12. (C) EXBS Advisor noted that in over 40 visits to border checkpoints over the last two years, he had seen significant quantities of USG-provided equipment go unused, or in most cases only one person at the installation knew how to use it.

Ambassador noted that when the USG provides equipment, it always provides training and follow-up support, and while this is usually gratefully accepted by the receiving country, in Armenia the Customs Service usually wants to truncate the training period so significantly (in one case requesting a three-day training program be condensed to four hours) as to render it useless. The USG views this as a signal that the GOAM is not serious about making proper use of the equipment or the activities it is intended to support.

¶13. (C) Khachatryan indicated it should be possible to resolve technical and organizational issues in order to allow Customs staff to receive necessary training. He claimed, however, that the Customs service had made some requests to the USG for training that had not been granted. (Comment: EXBS has not refused training to Customs in the past. Khachatryan may be referring to one of the requests made by the GOAM during the visit of the Nuclear Smuggling Outreach Initiative (NSOI), where Customs wanted to send its officers to several foreign capitals to observe their customs operations. This would have been essentially a paid vacation for customs officers, and for obvious reasons was not included in the NSOI project plan. End Comment). He identified a program in Georgia where U.S. experts have been working for eight months on a risk management-based system, and would like to see such a program undertaken in Armenia.

#### COMMENT

¶14. (C) It is difficult to accept Khachatryan's claims that he is serious about reform of the Customs Service. Both he and Afrikian have long been part of the Customs establishment and of the culture of corruption. Also, Khachatryan's concept of "security" seems to lie more in preventing importers from underpaying customs duties than in interdicting illegal items. Even with a serious intent to undertake reform, progress will be slow, given that the system is based on years of customs officers literally having to buy their positions and the rent-seeking opportunities that come with them. Reform will require the addition of hundreds of new staff with professional training to replace those who have known only the bribe-taking culture of old.

¶15. (C) Khachatryan appeared distressed by Afrikian's backpedaling on the questions of training and equipment immediately after Khachatryan had emphasized his commitment to both. Afrikian, a former advisor to President Sargsian when he served as Defense Minister, may not have a high level of accountability to his boss. We will continue to press Khachatryan on the issues of both tax and customs reform, and will follow up with information about how the agency is failing to make use of USG-provided equipment and training.

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We hope to meet soon with Khachatryan, s other deputy -- the head of the tax service -- for a discussion of tax administration. End Comment.  
YOVANOVITCH